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Message Text

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15
ORIGIN MC-02

INFO OCT-01 EA-11 ISO-00 L-03 DODE-00 EB-11 CIAE-00 INR-10

NSAE-00 RSC-01 COME-00 PM-07 NSC-07 SP-03 SS-20

TRSE-00 OMB-01 /077 R

DRAFTED BY PM/MC:KCHUMBORG:BB:PAW
APPROVED BY PM/MC:JWSIPES
DOD:BOXMAN
EA/RA:DSCIACCHITANO
EA/PHL:DCCUTHELL
PM/SAS:DMCLINTOCK
L/PM:TABOREK
---------- 112405
P 312249Z MAY 74
FM SECSTATE WASHDC
TO AMEMBASSY MANILA PRIORITY

C O N F I D E N T I A L STATE 115105

E.O. 11652: GDS
TAGS: MILI, RP
SUBJECT: M-16 COPRODUCTION AGREEMENT
REF: MANILA 6156

1. DEFENSE AND STATE (PM/MC) HAVE CONTACTED U.S. COLT EXE-
CUTIVES TO DISCUSS PROBLEMS POSED REFTEL.

2. ACCORDING TO COLT, MEETINGS HELD IN MANILA SUBSEQUENT
REFTEL RESULTED IN GENERAL UNDERSTANDING BETWEEN GOP AND
COLT REPRESENTATIVE REGARDING COST ESCALATION AND FINANCIAL
ARRANGEMENTS. REPORTEDLY, GOP UNDERSTANDS INCREASED COST
PROBLEM AND PARTIES ARE CLOSER TO AGREEMENT THAN INDICATED
REFTEL.

3. DEFENSE, IN ITS DISCUSSIONS WITH COLT, URGED LATTER
FINALIZE NEGOTIATIONS WITHOUT FURTHER DELAY IN ORDER AVOID
FURTHER EMBARRASSMENT, POINTING OUT COMMERCIAL AGREEMENT IS
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NOT FIXED-FEE CONTRACT AND SPIRALLING COST ESCALATIONS COULD

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BE NEGOTIATED LATER.

4. DEPARTMENT, FOR ITS PART, REQUESTED COLT TO BRING COMMERCIAL AGREEMENT IN LINE WITH MOU AND TO DELETE ANY REFERENCE TO MANUFACTURE FOR THIRD-COUNTRY TRANSFER. DEPARTMENT, ALTHOUGH UNDERSTANDING GOP DESIRE TO MAINTAIN EXPORT POTENTIAL AS PART OF AGREEMENT, HAS CONCLUDED THAT ANY THIRD-COUNTRY TRANSFER AUTHORIZATION PREMATURE. WE MUCH PREFER THIS BE CONSIDERED ON A CASE-BY-CASE BASIS AT A MORE APPROPRIATE TIME. THIS DECISION IS CONSISTENT WITH RESTRICTIONS PLACED ON OTHER SIMILAR M-16 MANUFACTURING AGREEMENTS (I.E. COLT/CHARTER, SINGAPORE COMMERCIAL AGREEMENT AND KOREAN/COLT/USG CO-PRODUCTION AGREEMENT).

5. COLT COMMERCIAL AGREEMENT WAS SUBMITTED TO DEPARTMENT LATE APRIL. MAY 1 PM/MC SOLICITED COMMENTS FROM OTHER AGENCIES AND OFFICES WITHIN DEPARTMENT. UPON RECEIPT OF COMMENTS PM/MC WILL PROMPTLY NOTIFY COLT IN WRITING. IF USG APPROVAL IS CONTINGENT UPON MODIFICATION TO AGREEMENT, COLT WILL BE SO ADVISED AT THAT TIME. IT APPEARS NOW THAT ONLY SIGNIFICANT RESTRICTION WILL BE REMOVAL OF REFERENCE TO THIRD-COUNTRY TRANSFERS.

6. STATE AND DEFENSE BELIEVE USG HAS DONE ITS SHARE NEGOTIATING THE MOU. REMAINING DIFFERENCES ARE OSTENSIBLY COMMERCIAL AND ANY FURTHER USG INTERVENTION DEEMED INADVISABLE. KISSINGER

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